

Message Text

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11

ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8998

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UNCLAS WELLINGTON 3847

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SUBJ: N/A

REF: WELLINGTON'S 3366

1. SUMMARY PRIME MINISTER ROWLING (PM) ANNOUNCED ON DEC.
13 NEW MEASURES TO DEAL WITH ECONOMIC SITUATION. MEASURES
ARE DESIGNED TO RESTRAIN INCREASES IN PRICES AND INCOMES,
MAINTAIN FULL EMPLOYMENT AND PROVIDE FINANCE FOR ESSENTIAL
PRODUCTIVE PURPOSES AND EXPORTS.
END SUMMARY.

2. THE MEASURES ANNOUNCED BY THE PM INCLUDE GRANTING
4 PER CENT INCREASE IN WAGES AND SALARIES ON THE FIRST NZ\$75
OF GROSS WEEKLY EARNINGS EFFECTIVE JANUARY 15. THIS REPLACES
THE JANUARY COST-OF-LIVING ORDER WHICH WOULD HAVE BEEN ABOUT
7 OR 8 PERCENT. THE PM SAID THAT THE MEASURES ON WAGES
AND SALARIES COVER ONLY THE SITUATION ARISING IN THE
FIRST PART OF 1975. FURTHER CONSIDERATION WILL BE GIVEN
TO THE RATE OF FURTHER INCOME INCREASES AND ALSO APPROPRIATE
CHANGES IN PERSONAL AND COMPANY INCOME TAXES.

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3. SUBSTANTIAL INCREASES WILL BE MADE IN RESERVE BANK

SPECIAL DEPOSITS WITH TRADING BANKS TO MEET SHORT-TERM DEMANDS AND TO ALLOW MODERATE SELECTIVE RELAXATION OF LENDING POLICIES, ESPECIALLY FOR EXPORTERS. THE EXPORT CREDIT ASSISTANCE SCHEME WHEREBY TRADING BANKS CAN OBTAIN REPLACEMENT FUNDS FROM THE RESERVE BANK WHEN THEY DECOUNT TRADE BILLS FOR EXPORTERS WILL BE INCREASED TO THE LESSER OF \$1 MILLION OR 50 PER CENT OF QUALIFYING EXPORTS, UP FROM \$250,000 OR 25 PER CENT.

4. AN EXTRA \$50 MILLION IN SPECIAL DEPOSITS WILL BE MADE BY THE RESERVE BANK TO BANKS TO "FACILITATE CONTINUED GROWTH".

5. FINANCIAL ASSISTANCE WILL BE GIVEN TO RURAL SERVICING INDUSTRIES SUCH AS AERIAL TOPDRESSERS, AGRICULTURAL CONTRACTORS, ETC. GOVERNMENT IS CONSIDERING INCREASING FERTILIZER SUBSIDY TO ABSORB PHOSPHATE PRICE INCREASES TO TAKE PLACE JAN 1, 1975.

6. DEFERRAL OF MARCH COMPANY TAX FOR UP TO 4 MONTHS WITH REDUCED PENALTY PAYMENTS.

7. "HIGHEST PRIORITY" ON HOUSING FINANCE FOR LOW AND MEDIUM INCOME GROUPS. HOUSING CORPORATION ACTIVITIES TO BE EXPANDED AND MORE FUNDS (ABOUT \$12 MILLION) TO BE RELEASED FOR HOUSING THROUGH PRIVATE AND TRUSTEE SAVINGS BANKS. FURTHER FUNDS WILL BE MADE AVAILABLE AS NECESSARY. THE PM ASSURED THE BUILDING INDUSTRY THAT THERE WOULD BE "SUSTAINED LEVELS OF ACTIVITY WITHIN AVAILABLE RESOURCES OF MEN AND MATERIALS IN THE COMING YEAR".

8. SOCIAL SECURITY AND SUPERANNUATION BENEFITS TO BE FULLY COMPENSATED FOR COST-OF-LIVING INCREASES OF SECOND HALF OF 1974.

9. THE PM APPEALED TO THE NEW ZEALANDERS PREPAREDNESS TO ACCEPT SACRIFICES WHEN THERE WAS A CLEAR NATIONAL NEED. HE STRESSED THAT THE BURDEN OF ADJUSTMENT TO RISING IMPORT COSTS AND FALLING EXPORT RETURNS MUST BE SHARED BY ALL SECTIONS OF THE OF THE COMMUNITY. IN A TONE WHICH REVEALS AN INCREASING SENSE OF GRAVITY, THE PM SAID " THE REALITY UNCLASSIFIED

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OF THIS SITUATION ALLOWS OF NO COMPROMISE. OUR FARMERS AND BUSINESSES ARE BURDENED WITH TOO LARGE A SHARE OF OUR DECLINING FORTUNES. THEY CANNOT ABSORB ANY FURTHER INCREASES IN COSTS. IF WE CANNOT CONTAIN RISES IN MONEY INCOMES, WE FACE RECESSION AND UNEMPLOYMENT. WE CAN AVOID THIS SITUATION BUT ONLY IF ALL INCOME EARNERS PLAY THEIR PART IN FOREGOING INCOME INCREASES WHICH CANNOT BE MATCHED BY INCREASES IN PURCHASING POWER PROVIDED BY REAL

PRODUCTION."

10. COMMENT: THESE LATES MEASURES CONTAIN NO
SURPRISES. THEY CAN NOT BE DESCRIBED AS FAR REACHING OR
EXTREME. THEY ATTEMPT TO SPREAD THE ECONOMIC SACRIFICE
AMONG ALL IMPORTANT SECTORS OF THE ECONOMY. IT IS TOO EARLY
AT TIME OF DRAFTING THIS TELEGRAM TO OBTAIN ANY REACTION OF
SPOKESMEN OF DIFFERENT GROUPS, BUT FROM EARLIER COMMENTS,
THE "SACRIFICES" WILL BE ACCEPTED WITH MILD COMPLAINING IF
THERE IS GENERAL FEELING THE BURDEN WILL NOT FALL TOO SEVERELY
ON ANY GROUP AS WORKERS OR FARMING SECTION, ETC. FURTHER
EMBASSY ASSESSMENT WILL FOLLOW.
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